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SUBJECT: TWO GOI OFFICIALS ON IRAN CROSS-BORDER OIL FIELDS

REF: A. (A) BAGHDAD 0112
[1](#)B. (B) 09 STATE 23310

Classified By: EMIN John Desrocher for reasons 1.5 b,d

[1](#)1. (C) Summary: Ministry of Oil officials will continue technical-level talks with Iran over cross-border oil fields, and remain open to formal discussions of oil field unitization. To conclude such talks, MOO officials would welcome greater support from other parts of the GOI, including the Ministries of Finance and Foreign Affairs. The MOO Legal Director-General Laith Al-Shaher assesses that progress towards a cross-border agreement has been halted for now by the political debate over border demarcation. Prime Minister's Advisory Commission Chairman (and former Oil Minister) Thamir Ghadhbhan dismissed the idea that a dispute over the border is stalling talks, saying that while the Iranian government claims it is ready for a unitization agreement, "they do not really want it." In the meantime, he said, development of cross-border fields can move forward even in the absence of an agreement between the two countries. He thought that reaching a formal agreement would be a better solution, but, he said, "that would require a greater level of maturity." End Summary.

[1](#)2. (C) In a January 17 meeting with the GOI Ministry of Oil, Legal Director-General Laith Al-Shaher told Emboffs that he expects a joint Iraq-Iran technical group on cross border oil fields to meet again in January. (Note: The technical group was stood up in July 2009 and reports indicate it has met approximately five times since then. End note.) He was disappointed by the Fakka (aka Faqui) oil field incident (in which Iranian forces briefly occupied and raised an Iranian flag over Fakka well number 4, claiming it is on Iranian soil) and noted that it has set back progress in discussions on border fields.

[1](#)3. (C) Laith said that unitization of cross-border oil fields is the goal of the technical group, but talks on unitization must now be put aside until border demarcation takes place. (Note: Unitization provides for the exploration and development of an entire geologic structure by a single operation so that drilling and production may proceed in the most efficient and economic manner.) Laith noted that progress on border demarcation will require support from both the Ministries of Foreign Affairs and Finance (the latter to pay the estimated USD 500,000 cost of the demarcation survey). (Note: In a January 13 meeting, the MFA told emboffs that the Finance Ministry has provided the funds (ref A). If correct, word of this decision has not yet reached the Ministry of Oil. End Note.)

[1](#)4. (C) Laith implicitly criticized both ministries for failing to adequately support the effort: MFA has never sent

a lawyer to the talks, he claimed, and Finance balks at paying for the survey. Laith said a lawyer should definitely be part of the delegation, though he does not want to participate personally, citing security concerns. (Laith claimed to have received death threats in the past from "our friends" in Iran, and said he would not feel safe traveling in that country.) Regarding the USD 500,000 cost for the survey, Laith told Econoffs that the MOO has offered to pay the costs out of its own budget, if MOF cannot identify and disburse the funds. (Comment: Laith spoke as if no impediments to resolving the cross-border fields issue remain, but we assess that politics, rather than technical concerns or funding, is the true obstacle in this case. End comment.)

15. (C) Emboffs emphasized the USG interest in secure Iraqi borders and in a non-violent resolution of the current border dispute. We reiterated the USG desire to see Iran rejoin the community of responsible nations, and our continuing efforts to seek a diplomatic resolution to pressing international concerns over Iran's misbehavior. Until that resolution is reached, however, we noted (pursuant to ref B) that major new energy deals with Iran suggest to the Iranian government that it is "business as usual" with the international community despite Iran's continuing pursuit of a nuclear weapons capability and failure to cooperate fully with the IAEA. Therefore we strongly oppose any arrangement that would allow Iran to boost revenues from its hydrocarbon resources. We have advised U.S. firms not to invest in cross-border fields with Iran due to Iran Sanctions Act concerns, and the GOI has been made aware on numerous occasions of USG concerns about third country companies developing those fields as well. Despite these concerns, the GOI offered cross border fields in both its first (Fakka field) and second (Badrah field) oil license bid rounds. The Fakka field was never awarded, but the Badrah field was awarded in December 2009 to a consortium led by Russia's Gazprom. That contract has not been signed yet, but the MOO reports that Gazprom has accepted the contractual terms offered and is prepared to sign within the next two weeks. Development of that field will require billions of dollars in capital investment and could yield up to USD 8.5 million dollars per day in revenues (assuming 170,000 bbl/d at \$50 per barrel), some portion of which will likely be shared with Iran.

16. (C) Asked in a January 20 meeting about border disputes with Iran, the Chair of the Prime Minister's Advisory Commission (and former Oil Minister) Thamir Ghadhban told Emboffs that border incidents with Iran are nothing new and are likely to continue into the future. Iran is "eager to enforce the Algiers Accord" he said. At the same time he implied the Fakka well incident might have been unplanned, alluding to "factions within Iran" and noting that Iran is usually "very sensitive to Shi'a public opinion" in Iraq. He dismissed any dispute over the border per se, noting that even though some markers were disturbed during the Iran-Iraq war, "the land border is well defined and settled by both sides." He declined to speculate on the motives behind the Fakka incident, but noted that theories include a link to Iraq's recent successful bid rounds; as a diversion of attention from internal Iranian political problems; or an expression of anti-American sentiment.

17. (C) Asked about unitization agreements, Ghadhban said that "of course" development of cross border fields could move forward even in the absence of an agreement between the two countries. Each would develop its side of the field while agreeing to leave the other alone. Ghadhban said the Iranian government claims it is ready for a unitization agreement, "but they do not really want it." In the meantime, he said, the two sides can continue to meet to share data and hold technical discussions. He thought that reaching a formal agreement would be a better solution, but, he said, "that would require a greater level of maturity."

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